

GOVERNMENT OF ANDHRA PRADESH
ABSTRACT

Andhra Pradesh Rural Water Supply Project with assistance from World Bank -Internal Order on Project Design, Implementation arrangements including Financial Management and Procurement – Orders - Issued.

PANCHAYATI RAJ & RURAL DEVELOPMENT (RWS.III) DEPARTMENT

G.O.Ms.No.318

Dated:28 -10-2009

Read :-

G.O. Ms. No. 257, PR &RD(RWS.III) Department dated 18.8.2009.

ORDER:-

In the G.O. read above orders were issued approving the policy parameters in formulation of Andhra Pradesh Rural Water Supply Project (the project), which were incorporated in Project Implementation Plan and draft Project Appraisal Document. In the para 5 of above G.O., it was stated that the detailed orders regarding Financial management and Implementation arrangements would be issued separately.

2. A team from Government of Andhra Pradesh led by the Chief Secretary, Government of Andhra Pradesh along with Principal Secretary, Finance, Secretary, Rural Water Supply and Sanitation and Engineer-in-Chief, Rural Water Supply and Sanitation have held negotiations at World Bank office, Washington D.C. during August 20-25, 2009 for the proposed International Development Association (IDA) credit of SDR 96,600,000 or USD 150,000,000 equivalent.

3. Based on agreed Minutes of negotiations between Government of India along with Government of Andhra Pradesh and International Development Association from August 20-25, 2009, Project Appraisal Document (PAD) and Project Implementation Plan (PIP), Government, after careful consideration, hereby issues the following orders for project design, Implementation arrangements including Financial Management and Procurement to be adopted for the project.

4. The project development objective is to assist Government of Andhra Pradesh in improving rural water supply and sanitation services through progressive decentralization, community participation and enhanced accountability.

5. The Project will cover 6 districts with USD 150 million (Rs.720 Crores) of assistance which would make the total project cost to be Rs. 864 crores including Government of Andhra Pradesh share of Rs.123 crores and Community Contribution of Rs.21 Crores and will be implemented in five years.

6. The project will support RWSS programs in six districts namely Prakasam, Visakhapatnam, Kadapa, Karimnagar, Mahabubnagar and Adilabad which have been selected through transparent criteria, with priority for taking up the "not covered", "no safe-source", and tribal habitations. The participating districts will sign an agreement with the RWSSD for adopting common program and policies across the district, including consistent safeguards (environment and social) policies. The Project includes a Tribal Development Plan aimed at covering 400 tribal habitations in the needy Mandals of the Fifth Schedule Areas of the State. The project will directly benefit at least 2.1 million rural population, with improvements in sanitation and hygiene practices in the rural villages.

7. **Progressive Decentralization:** The participating districts will scale up the policies and institutional arrangements based on Swajaldhara principles. The District Water and Sanitation Mission (DWSM) established under the Zilla Parishad (ZP-district PRI) will be responsible for the district RWSS program and policy, with the District Water and Sanitation Committee (DWSC) as its executive arm for implementing the program. The RWSSD Divisions, under a service contract agreement, will provide technical support to the DWSC for designing and implementing the schemes. In case the RWSS Department engineers are not available or do not have the capacity, the DWSC could hire the Technical Service Provider (TSP) from the market. The following are the main devolved responsibilities:

- a. **New Single Village Schemes:** The DWSC will work with the GP Water Supply and Sanitation Committee (GP-WSC), a sub-committee of the GP, to plan, design and implement the SVS and the intra-village facilities of the MVS. The community participation will be strengthened with inclusion of women Self Help Groups in the GP-WSC. The GP-WSC will endorse and sign-off the final scheme design and payments made during scheme implementation stage. The tariff-setting and O&M of the scheme will be the responsibility of the concerned GP.
- b. **New Multi Village Scheme:** The RWSSD Divisions will assist the DWSCs to form Multi Village scheme Water Supply Committees (MVS-WSCs) comprising Chairpersons of the participating GPs. RWSSD will support the DWSC to plan, design and implement the MVS in participation with the MVS-WSC. The RWSSD Division will take endorsement and sign-off from the MVS-WSC during each stage of scheme planning, design and implementation. The O&M of the common facilities (bulk water supply) for the MVS will be the responsibility of the MVS-WSC.
- c. **Existing SVS and MVS:** The district program will support the rehabilitation and augmentation of existing schemes under common program and policies throughout the district.

8. **Community Participation:** The project supports community participation at all stages of the scheme cycle, with the GP-WSC ensuring representation from the participating habitations. The existing Self Help Groups, which are powerful and well-established women groups under various on-going programs in the state, will help the GP-WSC in reaching out to the communities.

9. **District-wide Program and Planning:** The DWSC under the District Collector will be responsible for implementing the district program and policies. The DWSC will take into consideration the district demand and priorities, and technical feasibility and sustainability requirements. Planning and prioritization of water supply schemes will be based on demand for SVS from GP (bottom-up) and reconciled with proposals identified by the DWSC for MVS (top-down). Sanitation programs will be specially designed, taking into consideration the need for IEC and hygiene promotion activities. Capacity will be built with the DWSC for implementing the district program.

10. **Improved Accountability:** Accountability will be enhanced through a clear separation of Governance and Operational Aspects, with clear mandates and relationship structures between the various sector agencies, institutions and stakeholders. At the state level, the SWSM will be responsible for overall RWSS policy formulation and budget allocation. At the district level, the DWSC will be responsible for the RWSS program and policies, which will be implemented through the DWSC. The RWSSD Divisions will enter into a service contract agreement with the DWSC to provide technical support to the DWSC for designing and implementing the schemes.

11. **Improved Financial Sustainability:** The participating districts will adopt district-wide policies on capital cost contributions and O&M cost recovery based on agreed affordability criteria. The capital cost contributions will be applicable to all new schemes, while O&M cost recovery will be applicable for all schemes (existing and new). The following are the guiding principles:

- a. **Contributions to Capital Cost:** The GP will contribute towards the cost of all new investments (amount not to exceed 10% of capital cost or Rs 500 per household, whichever is lower), through beneficiary household contributions. The community contribution for the Scheduled Caste (SC) / Scheduled Tribe (ST)/ BPL households will be on a concession basis (amount not to exceed 5% of capital cost or Rs 250 per household, whichever is lower). The above contributions may be in cash or labour, as decided by the GP and DWSC.
- b. **Contributions to O&M Cost:** The O&M cost for all investments (SVS and MVS) will be fully recovered through user charges, subject to an affordability ceiling. The O&M charges for all new schemes will be fixed prior to the commencement of the scheme. For MVS, the DWSC will decide the bulk water charges prior to approval of the MVS. In case of high cost schemes, the amount exceeding household affordability level (Rs.45/- per month) will be subsidized by the GP for SVS and ZP for MVS.

12. **Project Components:** The project comprises following three main components: (A) Capacity and Sector Development; (B) Infrastructure Development; and (C) Project Implementation Support.

Component A: Capacity and Sector Development (USD12 millions- Rs.57.6 Crores): This component will support the building of institutional capacity for implementing, managing and sustaining the project activities, along with sector development studies to inform policy decisions. The main sub-components include: (a) Capacity Building and Training activities for state level institutions, PRIs and sector stakeholders; (b) Information, Education and Communications (IEC) Program; and (c) Sector Development Studies.

Component B: Infrastructure Development (USD153.50 millions-Rs. 736.2 Crores): This component will support investments for improving water supply and sanitation services in the project habitations, including construction of new infrastructure or rehabilitation and augmentation of existing schemes, with safe disposal of waste-water. These investments would be made in an integrated manner with source strengthening and catchment area protection activities; soak-pits; construction of latrines for BPL households; community awareness programs for improving sanitation and hygiene practices; and incentives for achieving "open defecation free status". Solid waste management and surface drainage activities will be taken up in major GPs. Underground piped drainage will be supported in select Mandal Headquarters. About 80% habitations are expected to be served by SVSs using local groundwater sources. The MVSs, mainly relying on surface water sources, will be taken up for habitations where the local source is either not sustainable or of not acceptable quality.

Component C: Project Implementation Support (USD14.50 millions-Rs. 70.4 Crores): A Project Support Unit (PSU) under the SWSM, assisted by staff in the districts (D-PSUs), will implement and manage the Project. The main functions of the PSU will be to coordinate with various stakeholders including the SWSM, DWSM, DWSC; procure external services (as required) to support the implementation of the Project; and review and report the progress of the Project. This component includes establishing and operationalizing the following systems: (i) Sector Information System (SIS) and Monitoring and Evaluation (M&E) System for the Sector Program and the Project; and (ii) Financial Management System for administering funds and expenses for the Project.

The overall Proposed APRWSS Project Financial and Physical components are enclosed as Annexures I & II to the G.O.

13. **Fund Flow, Payments, and Disbursement Arrangements:** The existing state financial management systems of the GoAP will be used for the Project. These systems relate to budget allocation and fund flow for the project, financial sanctions and approvals, and require all payments to be made through the state government's Pay and Accounts (PAO) System, as per rules of the GoAP. As per the state financial management system, the Engineer-in-Chief RWSSD allocates the funds to the RWSSD Divisions through the LoC mechanism, authorizing them to incur expenditures till the limit indicated in the LoC. A copy of the LoC will be sent to the DWSC to provide information on the allocation and limits to which the DWSC can authorize payments.

14. The GP-WSC will actively participate at all stages of design, Implementation and management of the SVS and will endorse and sign off the bills raised by the Deputy Executive Engineer for payment, who will then forward these to the Executive Engineer of the RWSSD Division. The latter will pass the bills, seek authorization from the DWSC and forward these to the PAO for payment. In respect of the MVS, the Deputy Executive Engineer will raise the bill on the basis of works completed and get endorsement from the MVS-WSC and forwards to the Executive Engineer, who will pass the bill and after seeking authorization from the DWSC, sends it to the PAO for payment. Payments in respect of all expenditures incurred on MVS and SVS schemes, as well as all the other project components will be made through the PAO system.

15. In the case of small in-village works (like roof water harvesting systems, recharging of ground water sources etc.) the existing system of nomination limit upto Rs. 5 lakhs will be followed as per guidelines in G.O. Ms. No. 198, dt. 3.6.2005 of PR &RD (RWS-I) Department. Normal practice of execution works will be followed for these works also including payment. Where the works are implemented by beneficiaries like ISLs and Soak Pits, the procedure for implementation and payments will be made as per the procedure indicated in the TSC guidelines and Govt. of AP orders in force and subsequent amendments thereof. ISLs payment will be drawn from PAO and paid to the beneficiaries by Panchayat Secretary of Grama Panchayat.

16. The community contributions will be deposited in a separate bank account of GP-WSC in any Nationalized bank available in the village or nearby. GP-WSC shall make payments from the deposited community contributions to the executing agency during the pre-final bill, after the bill has been raised by Deputy Executive Engineer, passed by the Executive Engineer and also endorsed by GP-WSC. The payment cheque shall be signed by GP-WSC. The final bill shall be paid by the PAO.

17. The project will have a system of quarterly internal/ concurrent audit by independent firm(s) of Chartered Accountants, who will cover the activities at the PSU, the DWSC, and the RWSSD. They will review that the systems, procedures and rules of the Government of Andhra Pradesh as applicable to the Project are being adhered to across various project levels. The internal audit reports will be examined by the project authorities who will report to the World Bank any significant issues brought out in the reports.

18. Government of Andhra Pradesh Finance Department to RWSSD: The Government of Andhra Pradesh will make a budget allocation for the RWSSD World Bank Project and the

Engineer-in-Chief, RWSSD will issue quarterly Letter of Credits (LoC) to the RWSSD Divisions.

i) Infrastructure Development (component B): The RWSSD will allocate funds to the RWSSD Divisions as per the LoC allocation given by the Engineer-in chief. The RWSSD Divisions will work under a service contract with the DWSC to plan, design and implement the SVS and MVS in participation with the GP-WSC and MVS-WSC. The RWSSD will be fully responsible for the check measurements, verification of works completed, and raising bills to the PAO, who will make payments as per existing procedures of Government of Andhra Pradesh .

ii) Capacity and Sector Development (component A) and Project Implementation Support (component C): Funds will be allocated to these components under the respective budget sub-heads under the Project Major Head. The Project Director will then allocate these funds as per regular procedures of the state government to the concerned Implementing Agency for Component A and to the PSU/D-PSUs for component C.

19. Disbursement from the Bank: For disbursements, the quarterly Interim Unaudited Financial Reports (IUFRs) will be prepared by the PSU on the basis of consolidated "actual expenditure" information received from the D-PSU. The "actual expenditure" figures will be those that are sent each month by the PAO to the state Accountant General through the monthly accounts of the divisions.

The overall APRWSS Project Financial Management and Disbursement Arrangements are enclosed as Annexure IV to the G.O.

20. **Procurement of Works, Goods and consultancies:** All Procurement of Works, Goods and Consultancies will be carried out in accordance with the World Bank guidelines: "Procurement Under IBRD Loans and IDA Credits dated May 2004, revised October 2006", and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers", dated May 2004 revised October 2006. A separate Procurement Manual enunciating the guidelines and procedures is prepared under the project and shall be followed. Similarly a Procurement Plan for the first 18 months of the project implementation is prepared and agreed to during negotiations. The procurement of works, goods and consultants' services at state and district level shall be made accordingly.

21. Social and Environmental safe guards issues will be implemented as per World Bank operational guide lines. However the social and environmental assessment made during project formulation suggests that the project will not have any significant adverse and or irreversible social and environmental impact.

22. Monitoring and Evaluation System will be established to monitor Implementation progress of the Project on monthly, quarterly and annual basis.

23. The DWSC will confirm, on a six monthly basis, the key processes followed under the scheme planning and implementation stages as per Annexure III to the G.O.

24. A detailed Project Implementation Plan (PIP) is prepared in two volumes. The first volume details Project Design, Project Components, Implementation Action Plan, Institutional Arrangements, Financial Arrangements, Technical Arrangements, Procurement Arrangements, Social Assessment, Environmental Management Frame Work, Activities under Capacity Building, Communication Strategy, Governance, Transparency and Accountability, Monitoring & Evaluation. The second volume comprises various annexures, formats for Service Agreements, MoUs, Bye laws for constitution of GP-WSC, MVS-WSC etc. and shall be used during the implementation of the project.

25. The composition of Project Support Unit (PSU), District Water & Sanitation Mission(DWSM), District Project Support Unit (DPSU), Grama Panchayat Water & Sanitation Committee (GP-WSC), Multi Village Scheme Water Supply Committee (MVS-WSC) are annexed to the G.O. as Annexures V and VIII in order.

26. Based on implementation experience, further modification to the arrangements could be considered for more effective implementation. For this subsequent orders could be issued as and when found necessary.

27. This order is issued with the concurrence of Finance(PMU) Dept. vide U.O.No.93/Fin./PMU/2006, Dt.27-10-2009.

28. A copy of this order is available on the internet and can be accessed at the address <http://www.aponline.gov.in/>

(BY ORDER AND IN THE NAME OF THE GOVERNOR OF ANDHRA PRADESH)

**CHITRA RAMCHANDRAN,
SECRETARY TO GOVERNMENT,**

To

The Engineer-in-Chief, Rural Water Supply and Sanitation, Hyderabad
The Project Director, Andhra Pradesh Rural Water Supply and Sanitation Project, Hyderabad.

The Project Director, State Water and Sanitation Mission, Hyderabad.

The Chief Engineer, Rural Water Supply-I/II, Hyderabad.

The Chief Engineer, Vigilance and Quality Control, Hyderabad.

The Accountant General, A.P., Hyderabad.

The Director, Department of Economic Affairs, Government of India, Ministry of Finance, 51-A North Block, New Delhi-1100001.

The Joint Secretary and Mission Director, Rajiv Gandhi National Drinking Water Mission, Government of India, New Delhi.

The Senior Economist, Sustainable Development Unit, South Asia Region, World Bank-70, Lodi Estate, New Delhi-1100003, India.

The Director, Works and Project, Nampally, Hyderabad.

The Collector and District Magistrate, Visakhapatnam, Prakasam, Kadapa, Adilabad, Karimnagar and Mahaboobnagar.

Copy to:

The Finance (Expr. PR&RD) Department.

The Finance (PMU) Department.

The P.S. to M(RWS)

The P.S. to C.S.

The P.S. to Secretary (RWS&S)

//FORWARDED BY ORDER//

SECTION OFFICER

**Annexure-I to G.O.Ms.No.318 PANCHAYAT RAJ AND RURAL DEVELOPMENT
(RWS-III) DEPARTMENT, Dated 28-10-2009**

**Andhra Pradesh Rural Water Supply & Sanitation Project
Financial statement - Abstract**

<u>Components</u>	<u>Total cost in USD Million</u>	<u>Total cost in Rs. Crores</u>
A. Capacity and Sector development		
A1. Capacity Building	8.00	38.49
A2. Program IEC	0.80	4.09
A3. Sector Development Studies	1.10	5.00
A4. District Awards	2.10	10.00
Total Capacity & Sector Development	12.00	57.58
B. Infrastructure Development		
B1. New Investments		
a. SVS	74.30	356.47
b. MVS	40.80	195.55
c. Rainwater harvesting	0.70	3.36
d. Pilot testing new technologies	1.70	8.06
Total New Investments	117.50	563.44
B2. Rehabilitation and Augmentation		
SVS	9.90	47.69
MVS	0.00	0.00
Recharging groundwater sources	4.20	19.88
Protecting catchment area	0.00	0.00
Total Rehabilitation and Augmentation	14.10	67.57
B3. Sanitation and Hygiene Promotion		
a. ISL for BPL Households	6.70	32.15
b. Solid and Liquid Waste Management in Major GPs	3.90	18.36
c. Soak-pits	2.80	13.56
d. Underground Drainage and Solid and Liquid Waste Management in Mandal headquarters	7.70	37.07
e. Hygiene Promotion	0.80	4.06
Total Sanitation and Hygiene Promotion	21.90	105.19
Total Infrastructure Development	153.50	736.20
C. Project Implementation Support		0.00
C1. Staffing and Consultancy	5.70	27.92
C2. Equipment and Cost	2.00	9.40
C3. M&E	0.80	3.90
C4. Governance and Accountability Costs	0.60	2.80
C5. Engineering Support	3.30	16.53
C6. Community Support	2.10	9.92
Total Project Implementation Support	14.50	70.47
Base cost- Total Program		0.00
Price contingencies*		0.00
Total Project Costs	180.00	864.24
Total Financing Required	150.00	720.00

Note: Totals may not add due to rounding

* Price escalation @ 10% per annum is factored in the costs indicated.

**CHITRA RAMCHANDRAN,
SECRETARY TO GOVERNMENT,**

**Annexure-II to G.O.Ms.No.318 PANCHAYAT RAJ AND RURAL
DEVELOPMENT (RWS-III) DEPARTMENT, Dated 28-10-2009**

**Andhra Pradesh Rural Water Supply & Sanitation Project-
Physical components under Infrastructure Development**

I. Construction of water supply facilities

Habitations	2009-10	2010-11	2011-12	2012-13	2013-14	Total
SVS (PC to FC)	130	150	170	210	225	885
SVS (NC to FC)	150	200	200	275	300	1,125
SVS (NSS to FC)	50	75	100	-	-	225
Total under SVS	330	425	470	485	525	2235
MVS (PC to FC)	-	25	25	35	50	135
MVS (NC to FC)	-	25	25	40	50	140
MVS (NSS to FC)	-	25	25	25	50	125
Total under MVS		75	75	100	150	400
Grand Total	330	500	545	585	675	2635
Rain water harvesting structures	250	250	250	250	250	1250
Construction of schemes with Innovative technologies	6	6	6	6	6	30

II. Rehabilitation and augmentation of existing water supply schemes

Improvements to existing schemes	Unit	2009-10	2010-11	2011-12	2012-13	2013-14	Total
Augmentation and rehabilitation of existing SVS	SVS	150	250	200			600
Improving ground water sources	Habitation	330	425	470	485	525	2235

III. Sanitation and hygiene promotion

Physical outputs for construction of sanitation facilities

Sanitation facilities to be constructed	2009-10	2010-11	2011-12	2012-13	2013-14	Total
ISL for BPL	13,200	20,000	21,800	23,400	27,000	105,400

Physical outputs for construction of environmental sanitation facilities

Environmental sanitation facilities	2009-10	2010-11	2011-12	2012-13	2013-14	Total
Pavements, drains and SLWM in major GPs	8	8	9	10	10	45
Soak pits in habitations to be provided with water supply	330	500	545	585	675	2,635
UGD and SLWM in mandal HQs	0	0	3	3	4	10
GPs to be awarded for good performance in sanitation sector to promote hygiene	100	200	200	200	154	854

**CHITRA RAMCHANDRAN,
SECRETARY TO GOVERNMENT,**

**Annexure III to G.O.Ms.No. 318 PANCHAYAT RAJ AND RURAL DEVELOPMENT
(RWS-III) DEPARTMENT, Dated 28-10-2009**

Table: Processes followed and Outputs Achieved for SVS and MVS

Stages	Key Processes
1 Scheme Planning and Design Stage completed (as per scheme cycle)	<p>DWSC confirms:</p> <ul style="list-style-type: none"> o Baseline data established as per agreed indicators. o GP-WSC/MVS-WSC participated at planning and design stages. o GP-WSC/MVS-WSC endorsed and "signed-off" the design of scheme. o Initial (agreed) capital cost contributions collected. o MOU signed between GP-WSC/MVS-WSC and DWSC. o Implementation Phase Plan including Community Action Plan Prepared. o SVS/MVS appraised and approved by DWSC.
2 Scheme Implementation Stage completed (as per scheme cycle)	<p>DWSC confirms:</p> <ul style="list-style-type: none"> o System has been built. o Satisfactory Independent Implementation Quality Checks carried out. o Satisfactory independent technical and social audits carried out. o Payments endorsed and "signed-off" by GP-WSC/MVS-WSC.

**CHITRA RAMCHANDRAN,
SECRETARY TO GOVERNMENT,**

**Annexure IV to G.O.Ms.No. 318 PANCHAYAT RAJ AND RURAL DEVELOPMENT
(RWS-III) DEPARTMENT, Dated 28-10-2009**

**Andhra Pradesh Rural Water Supply & Sanitation Project
Financial Management and Disbursement Arrangements**

Budgeting

1. The Government of Andhra Pradesh will make an appropriate allocation for the project through a budget line item and release funds through the mechanism of the budget. The state government will make an annual budgetary allocation for the project as a "Plan-Outlay" item (expenditure head of account), under a separate budget line item "AP RWSS World Bank Project", in the demand for Grants by the RWSSD. The Finance Department will provide the Budget Release Order (BRO) to the Engineer-in-Chief of the RWSSD, who would be responsible for allocating the LoCs to the RWSSD Divisions for implementing various Single and Multi village schemes.

Fund Flow, Payments, and Disbursement Arrangements

2. The Principal Implementing Entity (PIE) is the Government of Andhra Pradesh RWSSD and the sub-implementing agencies are the six DWSCs under the respective District Collectors. The DWSCs will be responsible for planning, designing and implementing the district RWSS program and the RWSSD engineers will work for the DWSC under a service contract as described in Annex 6. The RWSSD Secretary will provide the administrative sanction for the overall state program while the DWSC will provide administrative sanction and authorization of expenditures at the district level.

3. The Finance Department will provide the Budget Release Order (BRO) to the Engineer-in-Chief of the RWSSD, who would be responsible for allocating the LoCs to the RWSSD Divisions for all the works. The RWSSD will utilize funds to the limit of the LoC for implementing the works. The PSU will have funds allocated for the Capacity Building component and the Project Management component through the respective budget sub-heads.

Financial Management Arrangements (PAO and LoC system)

4. The entire project will follow the existing Government of Andhra Pradesh financial management and fund flow system, with all project components conforming to the requirements and procedures of the Government of Andhra Pradesh Departmental LoC system (fund allocations and raising of bills for works done) and the PAO system (payments against works done). The LoC will be issued to the Executive Engineers of the RWSSD Divisions as per departmental procedure, and not to any other entity responsible for project implementation (DWSC, MVS-WSC, GP-WSC etc). The Executive Engineers of the RWSSD Divisions (who are also the Drawing and Disbursing officers- DDOs) will have the authority to operate the LOC under an allocated budget (in terms of the authority to operate the LoC), and will be the sole authority responsible for raising bills (in respect of part or full SVS and MVS related works) and sending these to the PAO for payment. As per the existing PAO system, no funds will be placed at the disposal of the DWSC or any other implementing entity, except funds for Component A which will be given by the RWSSD to a state level nodal implementing agency, and Component C which will be available with the PSU/D-PSUs. The authority to make payments/ issue cheques will continue to be with the respective PAOs in the districts.

5. The existing state financial management systems of the Government of Andhra Pradesh will be used for the Project. These systems relate to budget allocation and fund flow for the project, financial sanctions and approvals, and require all payments to be made through the state government's Pay and Accounts (PAO) System, as per rules of the Government of Andhra Pradesh. As per the state financial management system, the Engineer-in-Chief RWSSD allocates the funds to the RWSSD Divisions through the LoC mechanism, authorizing them to incur expenditures till the limit indicated in the LoC. A copy of the LoC will be sent to the DWSC to provide information on the allocation and limits to which the DWSC can authorize payments. Once a specific work is completed and is verified and check measured, the Deputy Executive Engineer of the RWSSD Division will raise the bill for payment in respect of the works completed. Keeping in view the above agreed roles and responsibilities of DWSC, the Executive Engineer of the division (who is the DDO as per the existing FM system in AP) will seek authorization from the DWSC, prior to sending the bill to the PAO for payment.

6. The GP-WSC will actively participate at all stages of design, implementation and management of the SVS and will be co-signatories to the bills raised by the Deputy Executive Engineer for payment, who will then forward these to the Executive Engineer of the RWSSD Division. The latter will verify the bills, seek authorization from the DWSC and forward these to the PAO for payment. In respect of the MVS, the Executive Engineer will raise the bill on the basis of works completed and get endorsement from the MVS-WSC and authorization from the DWSC, before sending it to the PAO for payment. Payments in respect of all expenditures incurred on MVS and SVS schemes, as well as all the other project components will be made through the PAO system.

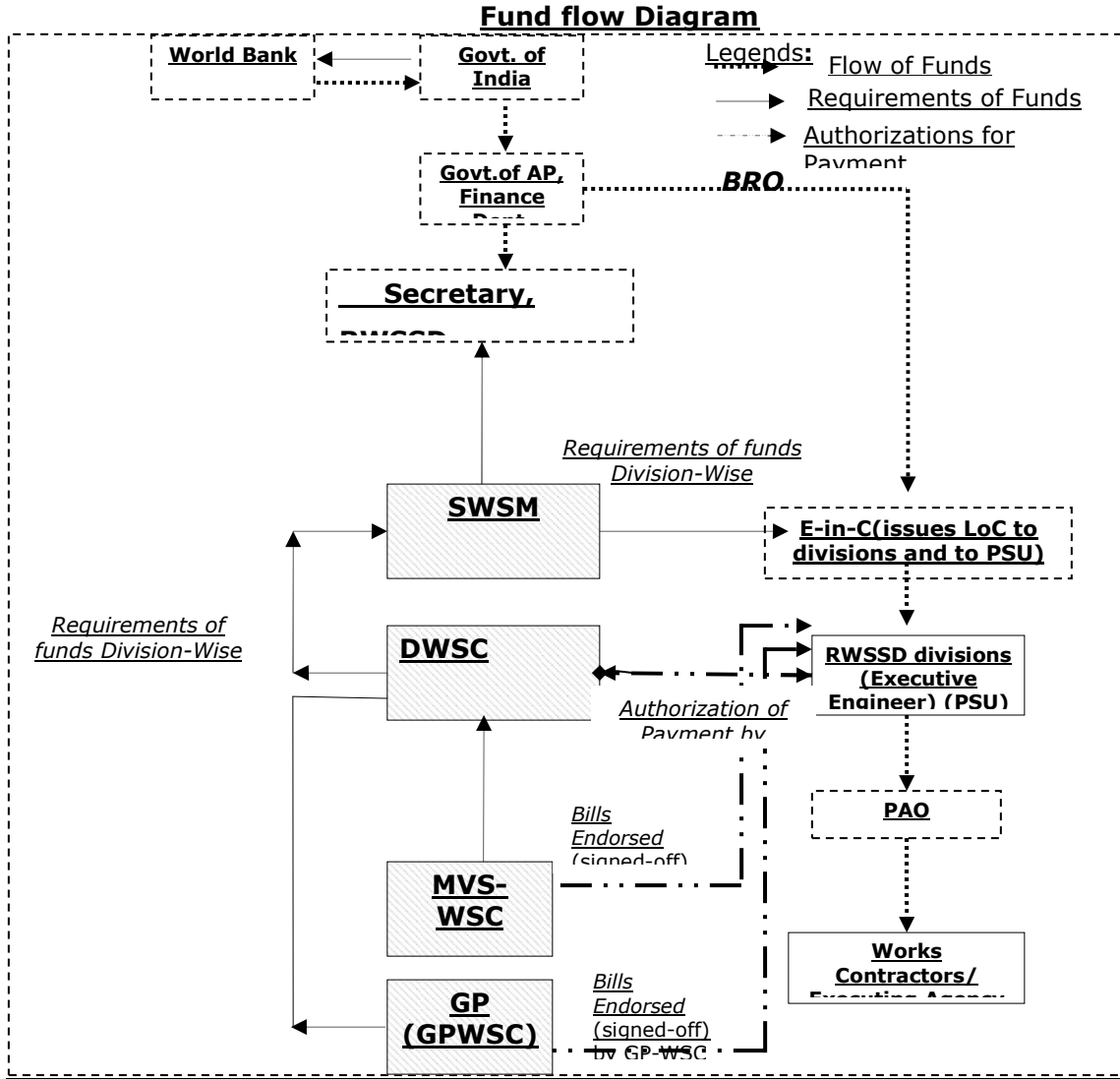
7. In the case of small in-village works (like Individual Sanitary works, roof water harvesting systems etc.) the existing system of nomination limit upto Rs 5 lakh will be followed. The procedure indicated in Para 15 of the G.O. shall be followed.

8. The following fund flow arrangements have been agreed in principle with the Government of Andhra Pradesh :

Government of Andhra Pradesh Finance Department to RWSSD: The Government of Andhra Pradesh will make a budget allocation for the RWSSD World Bank Project and the Engineer-in-Chief, RWSSD will issue quarterly LoCs to the RWSSD Divisions.

- **Component B (Infrastructure Development):** The RWSSD will allocate funds to the RWSSD Divisions as per the LoC allocation given by the Engineer-in chief. The RWSSD Divisions will work under a service contract with the DWSC to plan, design and implement the SVS and MVS in participation with the GP-WSC and MVS-WSC, as described in Annex 6. The RWSSD will be fully responsible for the check measurements, verification of works completed, and raising bills to the PAO, who will make payments as per existing procedures of Government of Andhra Pradesh .
- **Component A** (Capacity and Sector Development) and **Component C** (Project Implementation Support): Funds will be allocated to these components under the respective budget sub-heads under the Project Major Head. The Project Director will then allocate these funds as per regular procedures of the state government to the concerned Implementing Agency for Component A and to the PSU/D-PSUs for Component C.

9. Disbursement from the Bank: For disbursements, the quarterly Interim Un audited Financial Reports (IUFRs) will be prepared by the PSU on the basis of consolidated "actual expenditure" information received from the D-PSU. The "actual expenditure" figures will be those that are sent each month by the PAO to the state Accountant General through the monthly accounts of the divisions.



Accounting & Financial Reporting

10. The Government of Andhra Pradesh's existing FM procedures and rules will be applicable to all the activities undertaken in the project. These will apply to all aspects relating to budgeting; fund flow; accounting; internal control; financial and administrative delegation; internal and external reporting; staffing and audit arrangements. The expenditure reporting in respect of all works will be as per information generated through the standard Government Accounting Systems (in which monthly RWSSD divisional level accounts are rendered to the AG by the district Pay and Accounts Officer, PAO). The quarterly financial monitoring reports (Interim Un-audited Financial Reports, IUFRs) will provide information by project components and sub-components, and by project categories.

11. PAO will prepare the division-wise monthly accounts that will record "actual expenditure" in the classified abstracts, on the basis of payment vouchers. While the AG accounting system will record project expenditures by budget heads and sub-heads, the PSU will prepare IUFs by project components and sub-components after consolidating expenditure information from the division level classified abstracts. Expenditures will be recorded as per the 16 digit budget code of the Government of Andhra Pradesh.

Finance Staffing

12. A senior gazetted finance officer, preferably from the Directorate of Works Accounts of the Finance Department of the GoAP, will be deputed at the PSU. He/ she will be responsible for overall coordination of financial matters and overseeing of preparation of quarterly IUFs. At each Division, a Divisional Accounts Officer (gazetted rank) will be supported by the divisional level accounts staff, along with additional staff if necessary. The finance staff at the PSU will also be responsible for coordinating the external audit by the CAG/ AG AP for the entire project. The finance staff at the PSU and at the DWSMs will be in place before implementation.

Internal/Concurrent Audit

13. The project will have a system of quarterly internal/ concurrent audit by independent firm(s) of Chartered Accountants, who will cover the activities at the PSU, the DWSC, and the RWSSD. They will review that the systems, procedures and rules of the Government of Andhra Pradesh as applicable to the Project are being adhered to across various project levels. The TOR for internal audit will be reviewed by the Bank. The internal audit reports will be examined by the project authorities who will report to the Bank any significant issues brought out in the reports.

External Audit:

14. The Comptroller and Auditor General of India through its offices in AP will be the statutory auditor for the project. The office will conduct an annual audit of the project financial statements (the IUFRs) and the audit report will be sent to the Bank within six months of the close of each financial year. The Terms of Reference for the audit (along with the draft format of the financial statements and audit opinion) are the standard TORs agreed with the CAG for audit of all the World Bank projects. The audit reports in the Table below will be monitored in the Audit Reports Compliance System (ARCS).

Implementing Agencies	Audit	Auditors
RWSSD and DWSC, GoAP	Audit of project financial statements	Comptroller and Auditor General of India
Department of Economic Affairs	Special Account	Comptroller and Auditor General of India

Financing & Disbursement Arrangements

15. The Bank will finance approximately 83% of GoAP’s contribution to meet the project expenditure, subject to a limit of US\$150 million equivalent. Funds from the World Bank will be made available to GoAP (through the Government of India) under the back-to-back arrangement. The Bank will advance an initial amount of US\$15 million to the Designated Account and subsequent releases will be a reimbursement on the basis of actual expenditures incurred, as reported in the IUFRs.

Supervision Plan

16. From a financial management perspective, the project will need an intensive review of the internal controls, fund flow, auditing arrangements and training. This will be through a combination of periodic desk reviews and field visits. Special focus will be given by the PSU for building staff capacity and timeliness and quality of financial information. Compliance testing of payment approvals will form part of the supervision plans.

**CHITRA RAMCHANDRAN,
SECRETARY TO GOVERNMENT,**

**Annexure-V to G.O.Ms.No.318 PANCHAYAT RAJ AND RURAL DEVELOPMENT
(RWS-III) DEPARTMENT, Dated 28-10-2009**

Composition of Project Support Unit (PSU)

Designation	<u>Number of staff</u>
State level	
Project Director, PSU	<u>1</u>
<u>Deputy Project Director, PSU</u>	<u>1</u>
<u>Procurement specialist</u>	<u>1</u>
<u>Engineering specialist</u>	<u>1</u>
<u>Social expert</u>	<u>1</u>
<u>Environmental expert</u>	<u>1</u>
<u>M&E specialist</u>	<u>1</u>
<u>Financial expert</u>	<u>1</u>
<u>Assistant Project Director</u>	<u>2</u>
<u>Managers - technical</u>	<u>6</u>
<u>Accountants</u>	<u>2</u>
<u>Computer operators</u>	<u>2</u>
<u>Office subordinates & drivers</u>	<u>3</u>
<u>Total PSU staff</u>	<u>23</u>

**CHITRA RAMCHANDRAN,
SECRETARY TO GOVERNMENT,**

**Annexure-VI to G.O.Ms.No.318 PANCHAYAT RAJ AND RURAL DEVELOPMENT
(RWS-III) DEPARTMENT, Dated 28-10-2009**

Composition of District Project Support Unit (DPSU)

Designation	<u>Number of staff</u>
District level (6 districts)	
<u>Procurement specialist</u>	<u>6</u>
<u>Engineering specialist</u>	<u>6</u>
<u>Social expert</u>	<u>6</u>
<u>Environmental expert</u>	<u>6</u>
<u>M&E specialist</u>	<u>6</u>
<u>Financial expert</u>	<u>6</u>
<u>Assistant Project Director – DEE</u>	<u>6</u>
<u>Managers – Technical – AEE</u>	<u>18</u>
<u>Accountants</u>	<u>12</u>
<u>Computer operators</u>	<u>12</u>
<u>Office subordinates & drivers</u>	<u>12</u>
<u>Total DPSU staff</u>	<u>96</u>

**CHITRA RAMCHANDRAN,
SECRETARY TO GOVERNMENT,**

Annexure- VII to the G.O. Ms. No.318 PANCHAYAT RAJ AND RURAL DEVELOPMENT (RWS-III) DEPARTMENT&RD(RWS.III) Department Dated:28.10.2009.

Composition of Gram Panchayat Water & Sanitation Committee (GP-WSC)

<u>Position</u>	<u>For Plain areas</u>	<u>For Tribal areas</u>
<u>Chairman</u>	<u>GP Sarpanch</u>	<u>GP Sarpanch</u>
<u>Members</u>	<u>Elected ward members of participating village</u>	<u>Elected ward members of participating villages</u>
<u>Secretary</u>	<u>GP Secretary</u>	<u>GP Secretary</u>
<u>Member</u>	<u>Representatives of SHG/ Youth Group/ Citizen</u> <u>1/3rd of the members shall be SC/ ST</u> <u>1/3rd of the members shall be women</u> <u>Minimum number of members – 8</u> <u>Maximum number of members – 12</u>	<u>Representatives of SHG/ Youth Group/ Citizen</u> <u>50% of the members shall be ST</u> <u>1/3rd of the members shall be tribal women</u> <u>Minimum number of members – 8</u> <u>Maximum number of members – 12</u>

**CHITRA RAMCHANDRAN,
SECRETARY TO GOVERNMENT**

Annexure- VIII to the G.O. Ms. No.318 PR&RD(RWS.III)Department, Dated: 28-10-2009.

Composition of Multi Village Scheme Water Supply Committee (MVS-WSC)

<u>Position</u>	<u>Set up</u>
<u>Chairman</u>	<u>Zilla Parishad President (or his nominee who should be an elected representative to the ZP)</u>
<u>Vice Chairman</u>	<u>ZPTC (of Mandal where source is located)</u>
<u>Members</u>	<u>Chairpersons from participating GPs (on rotation basis for one year in alphabetical order - 5 nos.)</u>
<u>Secretary</u>	<u>EE, RWS</u>
<u>Member</u>	<u>ZPTC (other Mandal (s))</u>
<u>Member</u>	<u>Representatives of SHG/ Youth Group/ Citizen (1/3rd of the members shall be SC/ ST, 1/3rd of the members shall be women. Minimum number of members – 8)</u>

**CHITRA RAMCHANDRAN
SECRETARY TO GOVERNMENT**